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Global Analysis Report

DISTRIBUTION CHANNEL SERIES

E-grocery market In China

September 2017

Executive summary

- China is the largest e-commerce and e-grocery market in the world worth US$366.1 billion and US$23.9 billion respectively for 2016.
- Total e-commerce in China continues to register significant growth with a compound annual growth rate of 51.2% from 2012 to 2016. However, the rate at which e-commerce sales are growing is slowing down due to the rise in the numbers of players.
- From 2012 to 2016, China's e-grocery sales saw a compound annual growth rate of 52.9%. Although the category is seeing dynamic growth, it continues to account for a small portion (6.5% share) of total e-commerce sales in China.
- The top e-grocery retailers in China are Alibaba and JD.com.

Key concepts

For the purpose of this report, the following terms are defined as follows:

E-commerce: refers to the sales of consumer goods to the general public via the internet through electronic devices such as mobile and tablets (Euromonitor, 2017). Note mobile commerce (m-commerce) is a subset of e-commerce.

M-commerce: refers to consumers use of smartphones or tablet to connect to the internet and purchase their goods online.

E-grocery: refers to the sales of food and drinks online. This includes all packaged food, fresh food and drinks.

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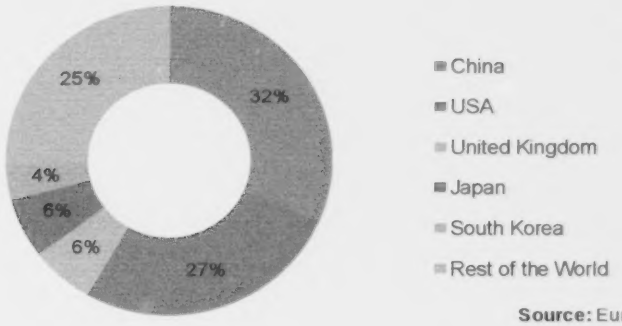
Introduction

China is the largest e-commerce market in the world with retail sales amounting to US$366.1 billion in 2016 and a compound annual growth rate of 51.2% from 2012 to 2016. Although the e-grocery sector in China is significantly smaller in comparison to other e-commerce sectors such as apparel and footwear, it has seen significant growth with a compound annual growth rate of 53% from 2012 to 2016. As a result, China was also the largest e-grocery market in the world worth US$23.9 billion in 2016. Of the top ten e-grocery markets, China made up 32% of the world's e-grocery retail sales.

Top five e-commerce markets in the world across all sectors, 2016



Source: Euromonitor, 2017.

This trend in e-commerce is largely driven by a combination of economic, technology and support infrastructure factors that are driving the demand for product variety/quality, convenience, and greater deals and transparency (BMI research, 2017). In recent years, China has seen a rising middle class with rising disposable incomes and spending. As a result, the last five years was the golden age for e-commerce in China, where value sales were continually boosted by further device penetration, more players emerging in the channel, and retailers making huge efforts to draw consumers to their websites.

As more and more e-commerce retailers such as online marketplace operators continue to focus their efforts in developing innovative services through established logistics and delivery methods, there is a growing opportunity for Canadian agri-food producers to sell and distribute their food and drink products in China.

Historic sales of the top ten e-grocery markets in the world from 2012 to 2016, in US$ millions

Country	2012	2013	2014	2015	2016	CAGR* (%) 2012-16	Market share (%)
World	**36,474.3**	**42,586.2**	**52,013.8**	**62,855.7**	**74,126.9**	**19.4**	-
1. China	**4,375.1**	**7,204.0**	**12,374.0**	**18,060.6**	**23,911.7**	**52.9**	**32.3**
2. United Kingdom	6,123.7	6,722.5	7,366.8	8,095.3	8,929.2	9.9	12.0
3. USA	6,069.7	6,528.7	7,076.7	7,748.7	8,387.3	8.4	11.3
4. Japan	5,235.2	5,661.2	6,180.4	6,773.3	7,460.1	9.3	10.1
5. France	4,213.2	4,655.8	5,537.8	6,316.3	6,907.3	13.2	9.3
6. South Korea	3,426.6	3,720.8	4,034.0	4,846.9	5,707.2	13.6	7.7
7. Australia	647.7	880.8	1,127.7	1,388.7	1,669.0	26.7	2.3
8. Spain	1,209.1	1,255.4	1,357.9	1,486.3	1,569.0	6.7	2.1
9. Germany	561.4	623.3	772.1	924.4	1,157.9	19.8	1.6
10. Italy	382.4	448.4	523.3	643.4	774.8	19.3	1.0

Source: Euromonitor, 2017. *CAGR-Compound Annual Growth Rate

Forecast sales of the top ten e-grocery markets in the world from 2017 to 2021, in US$ millions

Country	2017[E]	2018	2019	2020	2021	CAGR* (%) 2017-21	Market share (%)
World	**85,050.5**	**95,873.3**	**106,678.9**	**116,472.4**	**126,264.3**	**10.4**	-
1. China	**29,172.3**	**34,131.6**	**38,910.0**	**43,190.1**	**47,077.2**	**12.7**	**37.3**
2. USA	9,117.6	9,883.1	10,682.1	11,509.9	12,325.9	7.8	9.8
3. United Kingdom	9,867.0	10,689.4	11,387.8	11,904.3	12,294.0	5.7	9.7
4. Japan	8,191.1	8,944.7	9,722.9	10,529.9	11,382.8	8.6	9.0
5. South Korea	6,620.4	7,613.4	8,603.2	9,549.5	10,504.4	12.2	8.3
6. France	7,411.6	7,885.9	8,453.7	8,910.2	9,337.9	5.9	7.4
7. Australia	2,029.6	2,455.8	2,932.2	3,137.4	3,755.5	16.6	3.0
8. Germany	1,412.7	1,681.1	1,933.3	2,174.9	2,392.4	14.1	1.9
9. Spain	1,635.0	1,704.5	1,768.9	1,843.4	1,914.7	4.0	1.5
10. Italy	914.3	1,070.8	1,245.0	1,436.1	1,654.0	16.0	1.3

Source: Euromonitor, 2017. E-estimate *CAGR-Compound Annual Growth Rate

China's e-commerce ecosystem

E-commerce channels

As purchasing power and the pursuit of higher quality imports increases among Chinese consumers, more and more international players are entering China's e-commerce market (BMI Research, 2017). New international entrants enter China by establishing their own independent websites or cooperating with marketplace operators. Within the domestic market, store-based retailers are venturing into the e-grocery channel by choosing to outsource their online grocery business to third party operators who provide the service of purchasing the groceries for consumers at the nearest store and delivering them in a very short time period (e.g. two hours after online purchase) (Euromonitor, 2016).

China's e-commerce channels for Canadian agri-food producers

Online marketplaces

In basic terms, an e-commerce marketplace is a platform where products and services are provided by multiple brands, while the transaction is processed by the marketplace operator. This e-commerce model gives international firms immediate access to an established consumer domain with high consumption traffic. Moreover, international firms will get assistance from the marketplace operator to quickly launch their store fronts with minimal upfront cost in comparison to creating a independent site. Thus benefiting from the convenience and credibility that online marketplaces offer Chinese consumers.

E-commerce marketplaces in China are an ideal market entry point for Canadian agri-food producers wanting to expand into the Chinese's market. Currently, online marketplaces make up 90% of the online transactions in China and are the most important aspect of the e-commerce ecosystem (Canadian Trade Commissioner Services, 2016).

Within online marketplaces, there are two formats, which a Canadian producer can participate, in when entering China's market: online hypermarket and online mall.

Online hypermarket – business-to-business-to-consumer (B2B2C)

This is a business-to-business-to-consumer model in which a Canadian producer would sell their product directly to an online platform. This is similar in many ways to selling to a distributor or to Amazon. The online platform manages all aspects of sales and distribution. In this model, the Canadian company is not directly involved in e-commerce in China, but rather selling to the company running the platform. This is a straightforward and simple transaction that only requires the Canadian company to supply products (Canadian Trade Commissioner Services, 2017). In this model, Canadian companies can work with the platform or a third party service provider to develop promotional activities that generate traffic to their page.

Online mall – business-to-consumer (B2C)

This is a business-to-consumer model in which a Canadian company can setup virtual "stores" on the online marketplace. The store would either be operated by the Canadian company or a partner such as a third-party logistics company with official partnerships with the marketplace (i.e. Tmall Global). In this case, the marketplace acts as the platform in which stores operate, such as Amazon.com. There are three types of stores available to companies using the online mall model:

1. Flagship store - is where companies can sell their own brands. It can be different types of products, but needs to be under the same brand name. Only the brand or brand's master license holder with full rights to intellectual property (IP) can open a flagship store. This store format has the highest priority for traffic and has all media channels (such as social media) available to it.

2. Exclusive shop - is a single brand store front in a marketplace (online mall) run by an authorized brand reseller. This reseller has been given the rights to use some of the brand's intellectual property (IP) such as the brand logo.

3. Boutique store - is a multi-brand store front, and it acts like a reseller. There are usually several different brands being sold in the store.

Domestic marketplace

With this online mall model, Canadian companies have the option to sell their products directly on a domestic marketplace such as Tmall or JD's online mall. However, a legal entity such as a Joint Venture (JV) or a Wholly Foreign Owned Enterprise (WFOE) is required in China. In addition, the company would need to have a local partner that can import and distribute the ordered goods.

Cross-border marketplace

Alternatively, Canadian companies can sell their products through cross-border marketplaces such as Tmall Global and JD.com Worldwide. These types of cross-border marketplaces allow international companies without Chinese business licenses to sell their products more easily and conveniently in China's market. This option is the most favorable for Canadian businesses looking to test the market before setting up in a broader business model in China. The cross-border online malls are a lower risk approach to entering the market, as they require relatively little investment from the foreign company (Canadian Trade Commissioner Services, 2016).

For all online mall approaches, Canadian companies would be responsible for shipping their products to China, ensure orders meet regulatory and customer requirements, and establish a relationship with third party logistic companies for warehousing, fulfilment and delivery (including reverse logistics to handle returns).

Independent websites

Independent websites are another entry point for a Canadian company to enter China's e-commerce market. However, independent sites in China account for little in the way of transaction volume and are primarily used as marketing tools (Canadian Trade Commissioner Services, 2016). According to the Canadian Trade Commissioner Services' e-commerce guide in China, independent website retailers tend to suffer approximately a -4% earnings before interest, tax, depreciation and amortization (EBITDA) loss while merchants operating on marketplaces experience a 9% EBITDA.

Overall, online marketplaces are the most established and advantageous platforms in China's e-commerce market for Canadian businesses as they reduce the cost and time needed to develop and run an independent retail site. It is possible for marketplaces to incorporate multiple models, for example JD.com operates both a B2B2C (hypermarket) and B2C (online mall) model on its marketplace (Canadian Trade Commissioner Services, 2016). Of the different marketplace options, Mintel estimates that the growth in retail sales of e-commerce purchases was mostly driven by 1,094% growth in the B2C online retail segment from 2011 to 2016.

Payments

One of the reasons Chinese consumers favor internet shopping is because online retailers offer a variety of payment options; usually including features such as pay on delivery, online banking and payment through online payment platforms. The third-party payment platforms, led by Alipay and WeChat Pay, continue to gain popularity in the market as online payment security and convenience have improved. The leading payment platforms have also launched mobile applications, apps, to drive more consumers to make purchases through mobile devices.

Alipay

Alipay, launched by Alibaba Group, is one of the leading third-party payment platforms in China, reaching 400 million users in April 2017. The platform provides cross-border payment services by collecting payments on web, mobile or in stores from Chinese consumers in Chinese Yuan (CNY) and settling the payment to the merchant in a foreign currency at a real-time rate. For more information, please check: https://global.alipay.com/products.

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WeChat Pay

WeChat Pay is a payment platform integrated into WeChat, the most popular instant messaging app in China. It provides multiple payment options such as official account payment and in-app payment. Merchants who have business entities in mainland China can register a local WeChat official account and embed WeChat payment within their mobile websites. Merchants who do not have entities in China can set up a WeChat cross-border payment account to complete transactions. In-app payment lets merchants to enable WeChat pay in their Android or iOS apps as a payment option.

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For information related to account application process, please check: https://pay.weixin.qq.com/index.php/public/wechatpay.

Apple Pay

Apple Pay is a payment app created by Apple Inc. In 2016, Apple Pay entered the China's market, partnering with one of the biggest card payment organizations in China, China Union Pay. With Alipay and WeChat Pay's dominance in online payment, Apple Pay's future performance is uncertain, however, the partnership might help Apple Pay leverage some market resources in China.

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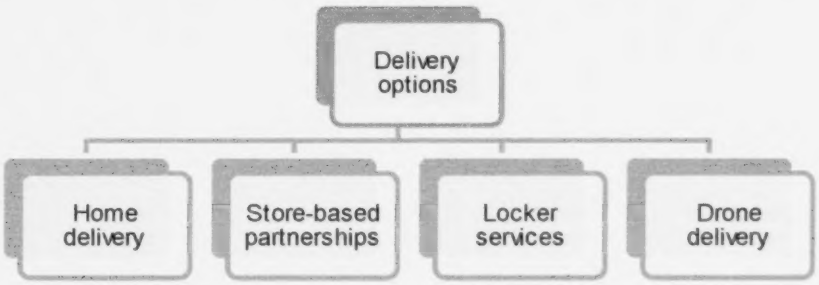
For more information, please check: https://www.apple.com/ca/apple-pay/.

Shipment and delivery logistics

Delivery options

E-commerce delivery options for Chinese consumers



Chinese consumers are used to receiving goods within days or hours after purchasing them online. Fast and efficient product delivery is a key component in China's e-commerce marketplace. As a result, online retailers offer a variety of flexible delivery options which include home delivery, store-based partnerships, locker services, and drone delivery.

1. Home delivery - This is the most preferred delivery option among Chinese consumers for online purchases.

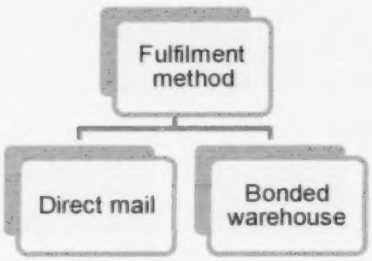
2. Store-based partnerships - Online retailers are partnering with convenience stores to make it easy for consumers to collect their parcels in convenient locations when they are not home to receive them (Euromonitor, 2016).

3. Locker services - Lockers are available 24/7 for retailers to drop off their parcels for consumers to collect orders at their own convenience. This is being provided more frequently as an alternative delivery option.

4. Drone delivery - Companies like JD.com have been developing drone delivery to meet the rising retail demand in China's rural areas where complex terrain and underdeveloped infrastructure have compromised timely human courier delivery (Business Insider, 2016).

Fulfilment options

International e-commerce fulfilment options into mainland China



For foreign companies participating in China's e-commerce marketplace, there are two models of operation when it comes to the fulfilment of consumer orders:

1. Companies can ship their products by direct mail to consumers directly from their overseas locations. For this method, Canadian enterprises can use international express companies such as UPS, FedEx, or DHL.

2. Alternatively, they can ship their products ahead of time in bulk and store them in a third-party's bonded warehouse in one of the ten cross-border e-commerce cities, which are Shanghai, Ningbo, Chongqing, Guangzhou, Shenzhen, Tianjin, Hangzhou, Zhengzhou, Fuzhou, and Pingtan. The products will then be delivered to consumers from the bonded warehouse. Should it be necessary, Canadian merchants can work with an integrated third-party logistics company to improve the order fulfilment efficiency.

As e-commerce continues to grow, domestic retailers in China are turning to even more creative solutions. These include investing in online-to-offline business models and self-pickup strategies that will shift more of the last-mile delivery costs to purchasers, and automating their warehouse operations (McKinsey and Company, 2016). All of these initiatives are motivated by efforts to maintain a competitive advantage in the e-commerce market in China.

Regulations

Within the past few years, the Chinese government has introduced numerous policies to support and regulate e-commerce in China. According to Mintel, the government's plan, in the next few years is to deepen the penetration of e-commerce in rural areas, by creating sixty national e-commerce demonstration

bases, to help develop different business model applications, build infrastructure to support e-commerce regionally and allow greater diversification in the market. In addition the intent is to promote the development of 100 overseas e-commerce sites (Mintel, 2016).

In 2016, China's central government issued a cross-border e-commerce tax. Through this new taxation policy, the Chinese government aims to even the playing field between overseas and domestic online players. Under the new policy, retail goods purchased online through a registered cross-border platform are treated as imported goods and are subjected to various types of import duties and taxes such as an import tariff, VAT (value-added tax), and consumption tax (Canadian Trade Commissioner Services, 2016). As a result, food products will now have an import tax rate of 10% while alcohol products will have an import tax rate of 50% and a consumption tax rate of 10% to 20% (Mintel, 2016). The new rules also provided an exemption from import duties on any purchases from foreign websites of up to RMB 2,000 (equivalent to $385 CAD), but add a sales tax of 11.9% charged to the retailer (Mintel, 2016).

In addition, the Chinese government released a list of imported commodities for retail cross-border e-commerce, referred to as the "Positive List". The list highlights, only products that are allowed to be imported through cross-border e-commerce. See list:

http://2016.export.gov/china/build/groups/public/@eg_cn/documents/webcontent/eg_cn_100092.pdf

Lastly, China is in the progress of passing an e-commerce law to boost regulations around e-commerce activities. This law is expected to promote the development of cross-border e-commerce that allow Chinese consumers to purchase products from online merchants located in other countires and the establishment of a supervision and management system for those activities. For example, the law is expected to increase the digitalization and convenience level of custom; clearance, tax collection and inspection and quarantine procedures. This means that electronic receipts and certificates will have the same legal weight as their paper versions. Overall, the aim of the law is to improve customs efficiency and ensure trade safety (CMS Legal, 2017).

See E-commerce Guide in China for more information on e-commerce regulations:

http://tradecommissioner.gc.ca/world-monde/china_e-commerce_guide-cybercommerce_chine.aspx?lang=eng

See Lexis Nexis China for more information on the upcoming e-commerce law:

http://hk.lexiscn.com/law/law-english-1-3006118-T.html

E-commerce market overview

Market trends

Cross-border e-commerce

Consumers from the most economically developed cities in China (e.g. Shanghai) with strong consumption capabilities are turning their eyes to high quality imported goods. To keep up with this trend, more international companies are engaging in the Chinese cross-border e-commerce trade to test the market before setting up businesses in China.

Online-to offline-channel integration - O2O

Although online grocery trade in China had seen sales growth over the 2012 to 2016 period, it has been slowing down, which is due to increased competition between retailers for existing consumers. This trend is driving retailers to develop a new marketing strategy which integrate the following aspects: online sites, social media campaigns, brick and mortar stores, physical distribution and logistics infrastructures in order to provide customers with the best service and most enjoyable shopping experience.

Internet retailers are opening physical stores or cooperating with store-based retailers to improve their logistics. Store-based retailers are establishing individual websites or opening flagship stores on online marketplaces (JD, Tmall, etc.) or through mobile apps (WeChat, etc.) to draw more consumers and enhance their brand reputation.

As Chinese consumers still prefer to visit physical stores to see and touch products in person, the companies engaging in the online-to-offline integration are expected to win more consumers by creating convenience and assurance for them. This method is also supported by the Chinese government as it is their vision to promote the utilization of online-to-offline integration in China's retail market (Mintel, 2016).

Mobile commerce in low-tier and rural regions

With mobile penetration, increasing household income, and a developing rural infrastructure in many developing cities (e.g. Kunming), rural region consumers are rapidly shopping online through mobile devices. Consumers prefer to make purchases through these devices because of its affordability and convenience.

To reach a wider consumer base, retailers are putting more efforts into launching their mobile apps to further expand their reach into rural China. Some retailers, such as Little Red Book ("Xiao Hong Shu" in Mandarin), are directly focused on mobile shopping apps instead of launching an online website. Also, main leading marketplaces are embedding their websites into well-known social networking sites or apps to draw more traffic to their platforms.

Retail sales

From 2012 to 2016, e-grocery was the most popular category of e-commerce, witnessing robust growth in value sales. In 2016, China's e-grocery sales reached US$23.9 billion and saw a compounded annual growth rate of 52.9%. Despite this growth, e-grocery continues to account for a minor part of e-commerce sales with a market share of 6.5%.

Within the e-grocery category, packaged food made up about 76.8% of the sectors' online sales, while the remaining 23.2% are estimated to come from drinks and fresh foods. In 2016, packaged food witnessed US$18.4 billion in online sales and experienced a compound annual growth rate of 61% from 2012 to 2016. In terms of packaged food sub-categories, baby food, dairy, and rice, pasta and noodles were the leading online grocery items purchased by Chinese's consumers in 2016. Altogether they made up 67% of packaged food's online sales, with baby food worth US$4.8 billion (with 26% market share), dairy worth US$4.4 billion (with 24% market share), and rice, pasta and noodles worth US$3.1 billion (with 17% market share).

A factor that played a significant role in the dynamic growth of e-grocery sales was the increasing penetration of smartphones and the advancement of m-commerce. Since their overtaking of personal computers (PC), mobiles have become the prominent devices for Chinese consumers to purchase their edible goods (Euromonitor, 2016). This was supported by retailers launching exclusive discounts and promotions for mobile purchases, resulting in a surge of orders via smartphones.

E-grocery sales are expected to continue to see rapid growth, with a forecasted compound annual growth rate of 12.7%. In 2021, e-grocery sales are expected to reach US$47.1 billion and account for 7.5% of total e-commerce sales. This growth is due to an increase in consumer interest in purchasing edible goods online, increasing smartphone penetration, and more investment in logistics, to provide faster delivery to cater to consumers' rising demand for convenience.

Overall, e-commerce sales in China are expected to reach US$624.3 billion by 2021, at a compound annual growth rate of 9.2%. This growth will be further driven by changing consumer habits, continued demand for convenience, further advancement in technology, innovation in product offering, and improved logistics. However, competition is expected to rise from both domestic and international players.

Historic e-commerce sales in China from 2012 to 2016, in US$ millions

Categories	2012	2013	2014	2015	2016	CAGR* (%) 2012-16
Total e-commerce	**69,978.4**	**112,549.5**	**184,825.0**	**279,606.2**	**366,078.2**	**51.2**
E-grocery	4,375.1	7,204.0	12,374.0	18,060.6	23,911.7	52.9

Source: Euromonitor, 2017. *CAGR – Compound annual growth rate

Forecast e-commerce sales in China from 2017 to 2021, in US$ millions

Categories	2017[E]	2018	2019	2020	2021	CAGR* (%) 2017-21
Total e-commerce	**439,293.8**	**505,187.9**	**555,706.7**	**594,606.2**	**624,336.5**	**9.2**
E-grocery	29,172.3	34,131.6	38,910.0	43,190.1	47,077.2	12.7

Note: E-grocery data only includes online sales of food and drink products. E-estimate

E-commerce sales of packaged foods in China from 2012 to 2016, in US$ millions

Categories	2012	2013	2014	2015	2016	CAGR* (%) 2012-16
Packaged food	**2,716.2**	**5,366.5**	**10,070.9**	**14,373.1**	**18,358.0**	**61.2**
Baby food	924.2	1,543.8	2,890.4	4,341.3	4,826.9	51.2
Dairy	801.9	1,433.7	2,990.3	3,584.7	4,397.9	53.0
Rice, pasta and noodles	159.3	477.7	1,319.0	2,161.0	3,130.7	110.6
Confectionery	298.3	558.9	765.3	1,293.1	1,625.8	52.8
Savoury snacks	206.9	470.3	628.2	870.5	1,570.8	66.0
Baked goods	98.2	224.4	443.9	669.9	931.7	75.5
Edible oils	70.1	245.4	380.9	546.9	707.2	78.2
Sweet biscuits, snack bars and fruit snacks	137.8	307.8	434.8	556.7	680.8	49.1
Processed meat and seafood	-	67.9	133.3	195.6	260.1	-
Breakfast cereals	9.3	14.0	28.7	50.8	82.1	72.4
Processed fruit and vegetables	4.8	10.6	25.6	42.5	53.9	83.1
Spreads	4.7	9.0	18.1	26.0	43.7	74.6
Ready meals	0.1	0.1	0.1	13.5	16.0	255.7
Ice cream and frozen desserts	0.0	1.4	7.5	12.6	14.1	-
Soup	0.6	1.6	3.4	6.7	10.1	102.6
Sauces, dressings and condiments	-	-	1.3	1.4	6.1	-

Source for both: Euromonitor, 2017. *CAGR – Compound annual growth rate

Device distribution

The internet penetration and surge in ownership of smartphones and tablets helped to drive the growth of e-commerce sales in China. As of 2016, internet access was available to 53.8% of the Chinese population and it is anticipated to cover 89% of the total population by 2030 (Euromonitor, 2017).

Historic digital devices access from 2012 to 2016 (% of China's household)

Digital devices	2012	2013	2014	2015	2016	CAGR* (%) 2012-16
Mobile telephone	91.0	92.4	93.6	94.6	95.5	1.2
Smart phone	16.4	24.7	35.9	45.6	53.2	34.2
Personal computer (PC)	40.9	43.8	46.7	49.6	52.2	6.3
Laptop	21.9	25.1	28.7	34.4	39.9	16.2
Tablet	4.3	5.6	7.2	9.2	11.8	28.7

Source: Euromonitor, 2016. *CAGR – Compound annual growth rate

Forecast digital devices access from 2017 to 2021 (% of China's household)

Digital devices	2017[E]	2018	2019	2020	2021	CAGR* (%) 2017-21
Mobile telephone	96.2	96.8	97.3	97.7	98.1	0.5
Smart phone	59.8	65.7	70.6	74.3	76.8	6.5
Personal computer (PC)	54.6	56.9	59.1	61.1	63.0	3.6
Laptop	45.1	49.7	54.0	57.9	61.3	8.0
Tablet	14.7	18.0	20.7	23.6	26.8	16.2

Source: Euromonitor, 2016. E-estimate *CAGR – Compound annual growth rate

In 2016, 95.5% of the total population in China was covered by mobile cellular network. The government and leading mobile operators continued to prioritize rural internet coverage and expansion of cellular networking in the remote areas. Rural shoppers usually benefit from the wide availability of cheap mobiles and prefer to possess a mobile phone rather than a personal computer or laptop.

In 2016, m-commerce made up 73% of China's e-commerce retail sales, representing a significant shift from 2012 when Personal Computers (PC) made up 95% of sales. During this period, m-commerce saw a compound annual growth rate of 189.2%, while PC purchases saw a compound annual growth rate of 10.6%. According to Mintel's consumer survey, 39% of food and drink purchases were made via PC, 40% via mobile, and 66% via in-store (data is based on multiple selections by survey respondents).

Historic e-commerce sales by channel from 2012 to 2016, in US$ millions

E-commerce channel	2012	2013	2014	2015	2016	CAGR* (%) 2012-16
Total e-commerce	**69,978.4**	**112,549.5**	**184,825.0**	**279,606.2**	**366,078.2**	**51.2**
Mobile	3,820.8	14,068.7	55,447.5	150,987.4	267,237.1	189.2
Personal Computer (PC)	66,157.6	98,480.8	129,377.5	128,618.8	98,841.1	10.6

Source: Euromonitor, 2016. E-estimate *CAGR – Compound annual growth rate

Forecast e-commerce sales by channel from 2017 to 2021, in US$ millions

E-commerce channel	2017[E]	2018	2019	2020	2021	CAGR* (%) 2017-21
Total e-commerce	**439,293.80**	**505,188.00**	**555,706.70**	**594,606.20**	**624,336.50**	**9.2**
Mobile	338,256.30	401,624.40	450,122.40	487,577.10	518,199.30	11.3
Personal Computer(PC)	101,037.60	103,563.50	105,584.30	107,029.10	106,137.20	1.2

Source: Euromonitor, 2016. E-estimate *CAGR – Compound annual growth rate

Consumer characteristics

E-commerce has given Chinese consumers access to a wider arrangement of products in which they never had access to before, especially for those in low-tier cities and rural areas. When it comes to online shopping, Chinese consumers have five basic requirements which are easy navigation, wide range of payment options, wide range of product options, detailed product information, and value for money (Mintel, 2016). In addition, Chinese consumers value online ratings, reviews, and recommendations from other shoppers when making a purchase decisions online.

According to Mintel, there are four key groups of Chinese shoppers based on their attitudes of online and offline shopping, which are: shopping haters, word-of-mouth (WOM) shoppers, online-to-offline (O2O) shoppers, and reticent shoppers.

Online Chinese consumer profiles

Shopping haters

- Mostly men in their 20s
- Monthly income: C$1,000 or less
- No college/university education
- Dislike traditional shopping
- Most likely to shop online via mobile
- Value: convenience, speed, ease of payment, and flexible delivery

Word-of-mouth shoppers (WOM)

- More likely to be men in their 30s and 40s, or women in their early 20s
- Monthly income: C$1,000 or less
- No college/university education
- Likely to shop for groceries and alcoholic drinks in-store
- Rely on recommendations to ensure they get the best price

Online-to-offline shoppers

- Mostly men in their 20s, or women in thier late 20s or older
- Monthly income: C$1,600 or above
- Have postgraduate degree or above
- Shop online either by PC or mobile
- Least likely to shop in-store
- Best engaged through social media and mobile apps

Reticent shoppers

- More likely to be women in their late 20s or 30s
- Monthly income: Between C$1,000 to C$1,600 or C$3,000 or above
- Have at least a college or university education
- More likely to buy clothing online and other products in-store
- Likely to have young children and are working
- Time-poor
- Value: convenience, product variety, and quality

Source: Mintel, 2016.

Key players

Alibaba, JD.com, Suning, and Vipshop are the top four e-grocery retailers in China, with combined total retail sales of US$254.8 billion in 2016. These retailers are putting more efforts into developing mobile apps, focusing on online grocery, engaging with consumers through social media platforms, and improving fulfilment logistics infrastructure.

Overview of main internet retailers in China with online grocery retailing: 2012 to 2016
Historical retail value RSP excludes sales tax, in US$ millions

Companies	2012	2013	2014	2015	2016	CAGR* (%) 2014-16
Alibaba Group Holding Ltd.	29,830.5	47,818.2	82,733.1	123,720.1	159,113.5	38.7
JD.com Inc.	-	13,769.8	25,766.6	46,294.1	74,109.6	69.6
Suning Commerce Group Co. Ltd.	-	3,293.2	3,363.7	6,557.0	11,485.0	84.8
Vipshop Holdings Ltd.	666.4	1,574.7	3,681.3	7,103.1	10,040.5	65.1
GOME Electrical Appliances Holding Ltd.	672.9	969.0	1,767.5	3,790.4	5,685.7	79.4
Amazon.com Inc.	1,076.4	1,593.0	2,469.2	3,703.8	4,666.8	37.5
Dangdang.com	1,074.1	1,420.0	1,737.5	1,985.1	2,151.7	11.3
China National Cereals, Oils & Foodstuffs Imp & Exp Corp. (COFCO)	84.8	169.5	296.7	489.6	660.9	49.2
Xingyin Information Technology (Shanghai) Co. Ltd.	-	-	-	208.7	584.3	*N/C
Shanghai Media Group	247.8	322.1	359.2	387.9	412.4	7.1
Jiuxianwang E-commerce Corp.	-	125.4	178.6	195.3	201.1	6.1
Newegg.com Inc.	244.9	247.3	210.5	178.9	162.8	-12.1
Tencent Holdings Ltd.	810.8	1,662.1	814.4	285.1	28.5	-81.3
MecoxLane Inc.	69.2	20.9	23.7	25.6	27.7	8.1
Walmart Stores Inc.	918.9	1,760.9	2,905.5	3,967.4	-	*N/C

Source: Euromonitor International, 2017. *CAGR – Compound annual growth rate *N/C – Non-calculable

Overview of main internet retailers in China with online grocery retailing: retailing snapshot

Companies	Imported grocery goods	Country pavilions	Leading stores
Alibaba Group Holding Ltd.	Yes	Yes	Taobao, Tmall
JD.com Inc.	Yes	Yes	JD, YiHaoDian (YHD)
Suning Commerce Group Co. Ltd.	Yes (electronics focus but moving towards general merchandise)	No	Suning
Vipshop Holdings Ltd.	Yes (fashion/ apparel focus)	Yes	Vipshop
GOME Electrical Appliances Holding Ltd.	Yes (electronics focus but moving towards general merchandise)	Yes	GOME
Amazon.com Inc.	Yes	Yes	Amazon
Dangdang.com	Yes (book focus but moving towards general merchandise)	Yes	Dangdang
China National Cereals, Oils & Foodstuffs Imp & Exp Corp. (COFCO)	Yes	Yes	Womai.com
Xingyin Information Technology (Shanghai) Co. Ltd.	Yes (social media app only)	No	Xiaohongshu (Little Red Book)
Shanghai Media Group (SMG)	Yes	Yes	OCJ
Jiuxianwang E-commerce Corp.	Yes (Alcohol focus)	No	Jiuxianwang
Newegg.com Inc.	Yes (Baby food only)	No	Newegg
Tencent Holdings Ltd.	Yes	No	Icson, WeChat
MecoxLane Inc.	Yes	No	M18
Walmart Stores Inc.	Yes	No	Walmart

Overview of main Internet pure play retailers[1] in China with online grocery retailing: 2012 to 2016
Historical retail value RSP excludes sales tax, in US$ millions

Companies	2012	2013	2014	2015	2016	CAGR* (%) 2014-16
Alibaba Group Holding Ltd.	29,830.5	47,818.2	82,733.1	123,720.1	159,113.5	38.7
JD.com Inc.	-	13,769.8	25,766.6	46,294.1	74,109.6	69.6
Vipshop Holdings Ltd.	666.4	1,574.7	3,681.3	7,103.1	10,040.5	65.1
Amazon.com Inc.	1,076.4	1,593.0	2,469.2	3,703.8	4,666.8	37.5
Dangdang.com	1,074.1	1,420.0	1,737.5	1,985.1	2,151.7	11.3
Xingyin Information Technology (Shanghai) Co. Ltd.	-	-	-	208.7	584.3	*N/C
Jiuxianwang E-commerce Corp.	-	125.4	178.6	195.3	201.1	6.1
Newegg.com Inc.	244.9	247.3	210.5	178.9	162.8	-12.1

Source: Euromonitor International 2017. *CAGR – Compound annual growth rate *N/C – Non-calculable
[1]**Note:** Internet pure play retailers refer to the retailers which sell only through the internet.

Top ten grocery retailers in China: 2012 to 2016
Historical retail value RSP excludes sales tax, in US$ millions

Companies	2012	2013	2014	2015	2016	CAGR* (%) 2014-16
China Resources Holdings Co. Ltd.	-	-	-	23,368.3	23,942.2	*N/C
Auchan Group SA	11,577.0	12,813.2	13,571.1	14,079.8	14,631.5	2.5%
Wal-Mart Stores Inc.	9,305.4	9,898.3	10,060.0	10,245.1	10,645.7	1.9%
Yonghui Superstores Group	3,651.5	4,467.3	5,360.6	6,134.2	7,102.0	9.8%
Bailian Group Co. Ltd.	7,823.8	8,528.3	7,825.7	6,902.2	6,251.7	-7.2%
Carrefour SA	5,989.6	6,200.5	5,871.9	5,272.1	4,749.2	-6.8%
Bright Food (Group) Co. Ltd.	4,302.5	4,478.4	4,446.9	4,476.7	4,342.8	-0.8%
China Petroleum & Chemical Corp.[1]	1,573.9	1,965.4	2,414.3	3,480.5	4,205.4	20.3%
Wumart Stores Inc.	2,389.0	2,576.2	2,928.3	3,197.1	3,311.2	4.2%
Wenfeng Great World Chain Development Corp.	2,192.7	2,361.4	2,409.7	2,358.0	2,197.6	-3.0%

Source: Euromonitor International, 2017. *CAGR – Compound annual growth rate *N/C – Non-calculable.
[1]**Note:** China Petroleum & Chemical Corp. owns Easy Joy, a chain convenience store brand with its stores mostly located at the gas station.

Highlighting China's major e-commerce companies

Tmall and Tmall Global (Alibaba)

Tmall is an online mall (B2C) marketplace founded by Alibaba Group. It is by far the largest online marketplace in China. It provides the platform for online retailers to open virtual stores and sell their products directly to consumers. It also provides marketing services, payment services such as Alipay and delivery logistics through its logistics affiliate CAINIAO, a company who transports more than 70% of express parcels in China.

In 2014, Tmall Global, a cross-border marketplace, was launched to help foreign online retailers sell directly to Chinese consumers. The platform has also set up 13 country pavilions including a Canadian pavilion. Consumers can find different types of storefronts including flagship, specialty, and boutique stores as well as branded products within these pavilions. Once an order is placed, it can be delivered to consumers through direct mail which usually takes 14 days, or from bonded warehouses in Chinese free trade zones (FTZs) which often takes 7 days.

Tmall has been shifting its strategy to focus on online grocery shopping, mobile shopping and logistics development. In 2015, Tmall.com launched a RMB 1 billion (approximately US$150.5 million) online grocery campaign exclusively for Beijing customers by offering same-day delivery. With its ambition to drive online grocery sales growth, Tmall has also been promoting mobile shopping, especially into rural markets.

Alibaba, Tmall's parent company, has prioritized online-to-offline retailing for the near future. It partnered with the multichannel company Suning Commerce Group who holds 1,600 brick and mortar stores, and 5,500 after-sales centres in China to develop its distribution network. For more information on Tmall Global, please check https://www.tmall.hk/.

JD.com and JD.com Worldwide (Jingdong)

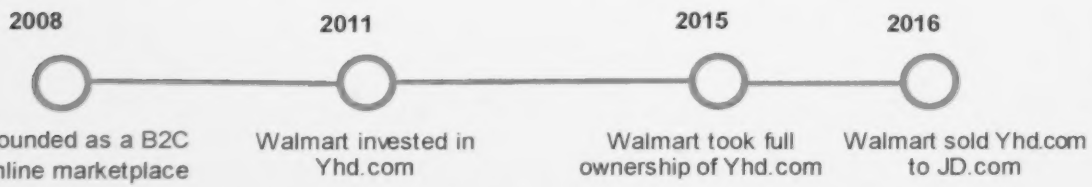
JD.com is an online hypermarket (B2B2C), and the second largest online player in China. JD.com has been expanding rapidly, with its increase in market share of 7.3% from 2012 to 2016. Meanwhile, its main rival Alibaba Group, the parent company of Tmall and Tmall Global, experienced a decline in market share of 1.3% over the same review period. JD.com has launched JD.com Direct Sales, JD.com Marketplaces, and JD.com Worldwide to support online merchants with various retailing methods.

JD.com Worldwide is JD.com's cross-border platform supporting foreign retailers entering China's online market. It has also launched eight regional/country pavilions on its platform, including a Canadian pavilion. This platform is presented in both Mandarin and English. To obtain detailed information on the internet merchant recruitment process go to: http://www.jd.hk/service/joinus.html.

JD.com is planning to further expand its fulfilment logistics infrastructure and technology platforms, expand its product range and hire more employees to gain more ground in the market. By the end of 2015, the company-owned fulfilment centres in seven cities, front distribution centres in nineteen cities and standalone warehouses for bulk products in 24 cities. Additionally, it has developed 5,367 delivery stations and pick-up stations in 2,356 counties and districts in China. The company provides both day and night time delivery service to meet consumers' needs. JD has also partnered with Tencent, a leading internet

value-added service provider in China, to improve its mobile marketing, and has entered into an alliance with Walmart in 2016 to catch up in the area of online-to-offline business that is the new trend.

YiHaodian / YHD (Jingdong and Walmart)



Yhd.com is a B2B2C marketplace, with its core business as an online grocery mall. In 2016, JD.com acquired the Yhd.com marketplace from retail giant Walmart to leverage its brand awareness in eastern and southern China, as well as to expand its online grocery sales. By the end of 2016, Yhd.com offered more than 10 million products, covering 15 product lines, such as food and beverages, imported foods and fresh products. Yhd.com aims to provide more imported goods and expand its market share in areas outside first-tier cities. Yhd.com offers rapid and overnight delivery services, and consumers can choose their ideal date and time to receive the package. Like Tmall and JD.com, Yhd.com also provides a B2B platform (http://b2b.yhd.com/index.do) to attract companies to purchase big ticket items from its online merchants.

Through Yhd.com, foreign online merchants who have established a business entity in mainland China can send their products through direct mail or to bonded warehouses in Chinese free trade zones (FTZs). It also provides training for merchants to help them adapt to China's market.

For more information on how to set up a store on Yhd.com, refer to:
http://xue.yhd.com/showlist/index/zhiyin/JH-9.html?tp=4.94952.m1343797_4.0.14.LhbTPhQ-10-BH94K&ti=ZNX4lx.

Spotlight on China's emerging social e-commerce platforms

China's e-commerce market is becoming crowded, but there are still opportunities for companies which can fulfil a niche segment in the market. Social media apps such as WeChat and Little Red Book (Xiaohongshu in Mandarin) are transforming from social media platforms to e-commerce merchandise. They allow anyone to set up a store on their platform, and enable consumers to buy high quality products from overseas.

WeChat (Tencent)

WeChat was initially an instant messaging app, launched in 2011 by Tencent, a Chinese online-gaming and social media company. Today, it is one of the world's most popular messaging apps, offering value-added services including advertising, e-commerce platforms, online-to-offline (O2O) services, finance and digital content to over over 800 million users. According to The Economist's report, "WeChat's world", the platform in the first quarter of 2016 gained approximately US$1.8 billion in revenue.

WeChat provides its mobile payment function, WeChat Pay, to allow consumers to link their credit cards to the app and purchase products through "click and pay" technology. WeChat also launched an e-commerce platform to let merchants build shops through official accounts and third-party store platforms, such as Weidian shop and JD.com WeChat store. They allow both major brands and smaller merchants to open stores, which has increased the rivalry between Tencent (WeChat) and Alibaba, since it is seen to threaten Alibaba's B2C platform Tmall.

Xiaohongshu / Little Red Book (Xingyin)

Xiaohongshu is a social e-commerce platform in China, and is only available through a mobile app. It was initially a social media platform where people could share overseas product information. In 2014, they launched a cross-border B2C e-commerce platform to provide imported products from overseas brands. Along with its discussion panels, consumers benefit from its word-of-mouth (WoM) marketing strategy by commenting and rating they have products purchased from different merchants. Xiaohongshu also owns bonded warehouses in cities such as Zhengzhou and Shenzhen, and aims to collaborate with European and Northern American retailers.

As an emerging and developing online platform, Xiaohongshu holds a small market share in China's online market. In comparison to leading players such as Tmall and JD.com, Xiaohongshu need's to improve especially on customer and delivery services in order to compete with larger platforms. In addition, Xiaohongshu will need's to ensure that it builds a good reputation for authentic products.

Opportunities and challenges for Canadian suppliers

Opportunities

- Chinese consumers are spending more than ever before in online marketplaces.
- Consumers in developing cities spend a high percentage of their income in online shopping.
- Issues of trust surrounding the safety of domestic products have pushed consumers to look abroad for brands with strong heritage and focus on safety.
- E-commerce provide a relatively straigforward path to gain entry into the Chinese market. It provides Canadian companies an affordable way to access Chinese consumers.
- E-commerce provide access to inner provinces and developing cities which have been underserved by traditional retail channels (e.g. brick and motor stores).

Challenges

- Government policies regulating the marketplace are dense, complicated and are prone to change without notice.
- China's e-commerce market is extremely competitive. Successful market entry via e-commerce requires a well thoughtout business model and an on-going commitment of resources to ensure products are branded and market effectively for a Chinese audience and sold at a price that can be profitable (Canadian Trade Commissioner Services, 2016).
- Shipping fees and timing pose a majour hurdle for Canadian companies shipping from overseas as consumers in China are used to receiveing online purchases within days or placing the order. Thus, a greater demand for quick delivery service. Product returns will futher exacerbate any challenges

from shipping products overseas into China (Canadian Trade Commissioner Services, 2016).

- Despite the rapid growth in e-grocery, there are still some factors preventing the sectors growth, such as high logistics costs and breakage during delivery of drinks, as well as the spoilage of frozen and fresh food (Euromonitor, 2016).
- IT structure is still developing and can pose problems with regards to internet speed.
- Access to overseas website from China is limited due the Chinese government "Great Firewall" which blocks Chinese consumers access from certain western sites (e.g. Google) and can hinder internet traffic (Canadian Trade Commissioner Services, 2016).
- Working with a Chinese partner/distributors can be risky as there is potential to loose control of brand. Interllectual property must be managed appropriately to avoid third party infringement.

Key definitions

E-commerce: refers to the sales of consumer goods to the general public via the internet through electronic devices such as mobile and tablets (Euromonitor, 2017). Note mobile commerce (m-commerce) is a subset of e-commerce.

M-commerce: refers to consumers use of smartphones or tablet to connect to internet and purchase their goods online (Euromonitor, 2017).

E-grocery: refers to the sales of food and drinks. This includes all packaged food, fresh food and drinks.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) - is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments (Canadian Trade Commissioners Services, 2016).

Cross-border e-commerce - refers to the sale or purchase of products via online websites or marketplaces across national borders. It enables overseas retailers to sell their products via the company's existing foreign website or a cross-border marketplace (Canadian Trade Commissioners Services, 2016).

B2B – Business-to-business, refers to commerce transactions between businesses, such as between a manufacturer and a distributor, or between a distributor and a retailer. For example Alibaba is the largest B2B e-commerce platform in China (Canadian Trade Commissioner Services, 2016).

B2B2C - Refers to business-to-business-to-consumer platform, a business pattern adopted by some e-commerce platforms such as JD.com which have self-operated business. i.e. Sourcing products from suppliers and then selling to consumers on their own online platforms (Canadian Trade Commissioner Services, 2016).

Online-to-offline (O2O) – also known as Omni-channel retailing, is the integration of online retailing to traditional bricks-and-mortar retailing. It covers a wide range of commercial and consumer activities, and aims to focus those online and offline activities into coordinated strategies as an integrated, multi-channel business plan designed to utilise online assets to re-establish in-store value, with a view to increasing overall retail revenue (both online and offline). This multi-channel approach is more two-way, from online-to-offline, and from offline-to-online (Mintel, 2016).

Free Trade Zones (FTZ) – a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured, and re-exported under specific customs regulation and generally not subject to customs duty (Canadian Trade Commissioner Services, 2016).

For more information

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

- **Overview of Trade Commissioner Services in China**
  www.tradecommissioner.gc.ca/cn

- **Find a Trade Commissioner**
  www.tradecommissioner.gc.ca/eng/find-trade-contacts.jsp

For additional intelligence on this and other markets, the complete library of Global Analysis reports can be found under *Statistics and Market Information* at the following link, arranged by sector and region of interest:

- ats-sea.agr.gc.ca

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DISTRIBUTION CHANNEL SERIES

E-grocery market in China
Global Analysis Report

Prepared by: Ranna Bernard, Market Analyst; Mengchao Chen, Co-op Student

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